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Message Text

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PAGE 01 BONN 17410 01 OF 02 141742Z

65
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-04 TRSE-00

LAB-04 SIL-01 SAM-01 OMB-01 USIA-06 NSC-05 SS-15 PA-01

PRS-01 L-03 H-02 XMB-02 OPIC-03 INT-05 EA-07 (ISO) W
---------- 064083
R 141727Z OCT 76
FM AMEMBASSY BONN
TO SECSTATE WASHDC 2523
INFO AMCONSUL DUSSELDORF
USMISSION EC BRUSSELS
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY ROME
AMEMBASSY PARIS
AMEMBASSY THE HAGUE

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E.O. 11652: N/A
TAGS: EIND, EEC, GW
SUBJ: GERMAN REACTION TO EC COMMISSION STEEL INDUSTRY PROPOSALS

REF: EC BRUSSELS 9681

1. SUMMARY: ECONMIN OFFICIAL, RESPONSIBLE FOR STEEL SECTOR, FORESEES STRONG FRG OPPOSITION TO EC COMMISSION PROPOSALS TO REGULATE THE STEEL INDUSTRY DURING CRISES. HE ALSO BELIEVES THE FRG WILL SUPPORT EUROFER TO DEFUSE THE POLITICAL PROBLEMS CAUSED BY THE NORTHERN GROUPING OF STEEL PRODUCERS, DENELUX. THE
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PAGE 02 BONN 17410 01 OF 02 141742Z

FRG CONCEIVES OF A EUROFER, HOWEVER, WITHOUT DIRIGISTIC

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

POWERS OVER THE INDUSTRY. END SUMMARY.

2. AN ECONMIN OFFICIAL IN THE IRON AND STEEL INDUSTRY SECTION, OLLIG, GAVE US HIS IMPRESSIONS OF DENELUX, THE NORTHERN GROUPING OF STEEL PRODUCERS WITHIN THE EC. THE CREATION OF DENELUX IN JULY WAS THE EVENT WHICH LARGELY PROMPTED RECENT EC COMMISSION STEEL INDUSTRY PROPOSALS. OLLIG STATED THAT THE GERMAN MARKET IS SIGNIFICANTLY INTERTWINED WITH THE LUXEMBOURG AND DUTCH MARKETS AND THAT DURING THE RECENT RECESSION THE PRODUCERS IN THESE COUNTRIES WERE MORE SEVERELY HURT THAN ANY OTHERS IN THE EC. THUS, SEEKING TO PROTECT THEMSELVES IN THEIR MOST IMPORTANT MARKET, THE SMALLER STEEL PRODUCERS PUSHED THE GERMAN PRODUCERS TO SET UP A STRONG ORGANIZATION TO REGULATE THE INDUSTRY. THE GERMAN GOVERNMENT, HOWEVER, SAW THE POLITICAL PROBLEMS INVOLVED IN A NORTHERN STEEL PRODUCERS' ORGANIZATION WITHIN THE EC AND PRESSURED THE MEMBERS TO FORM A WEAKER ORGANIZATION THAN ORIGINALLY PLANNED. THE ORGANIZATION FINALLY FORMED, DENELUX, IN EFFECT MAKES THE LUXEMBOURG, DUTCH, AND BELGIAN PRODUCERS MEMBERS OF THE GERMAN TRADE ASSOCIATION OF STEEL PRODUCERS (WIRTSCHAFTS VEREININGUNG EISEN AND STAHL). THE NON-GERMAN COMPANIES RECEIVE THE ASSOCIATION REPORTS AND STATISTICS AND PAY DUES. OLLIG ARGUED THAT DENELUX IS IN NO WAY A SUPER CARTEL, BUT IS RATHER A BUSINESS ORGANIZATION. HE EMPHASIZED ALSO THAT THE GERMAN GOVERNMENT TOLD THE GERMAN STEEL INDUSTRY THAT IT WOULD HAVE TO ACCOMMODATE SOUTHERN INDUSTRY AND COMMISSION OBJECTIONS TO DENELUX IN SOME WAY.

3. OLLIG THUS FORESEES FRG SUPPORT FOR ESTABLISHING EUROFER TO DEFUSE THE POLITICAL PROBLEMS CAUSED BY DENELUX. HOWEVER, THE GERMAN GOVERNMENT PERCEPTION OF THE POWERS WHICH EUROFER AND EC INSTITUTIONS WILL TAKE ON IS RADICALLY DIFFERENT FROM COMMISSION PROPOSALS.

4. STATISTICS: THE FRG HAS NO PROBLEM WITH BETTER STATISTICS, ESPECIALLY IN CONNECTION WITH EARLY
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WARNING OF ONCOMING RECESSION.

5. INVESTMENTS: THE FRG STRICTLY REFUSES TO COOPERATE IN ANY INVESTMENT STEERING PLANS FOR THE STEEL INDUSTRY BEYOND THE SCOPE OF THE EUROPEAN COAL AND STEEL COMMUNITY TREATY. UNDER THE ECSC TREATY THE COMMISSION CAN REFUSE COMMUNITY MONEY FOR PROJECTS OF WHICH IT DOES NOT APPROVE. SINCE PRODUCERS ALMOST ALWAYS

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

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REQUEST COMMUNITY MONEY THIS IS AN IMPORTANT POWER.
A REFUSAL FORCES THE INDIVIDUAL PRODUCER BACK ON HIS
OWN FUNDS.

6. INDICATIVE PRICES: THE FRG WILL NOT PARTICIPATE
IN ANY PRICE GUIDANCE SYSTEM WHATSOEVER. OLLIG CLAIMS
THAT ALL EC MEMBERS ARE AGAINST PRICE GUIDANCE.

7. PRODUCTION QUOTAS: THE FRG WILL ACCEPT VOLUNTARY
NATIONAL QUOTAS RECOMMENDED THROUGH THE ECSC MECHANISM

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PAGE 01 BONN 17410 02 OF 02 141744Z

65
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---------- 061635
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LIMITED OFFICIAL USE SECTION 02 OF 02 BONN 17410

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

IN TIMES OF CRISIS. SPECIFIC COMPANY QUOTAS, HOWEVER, CANNOT BE ACCEPTED.

8. INTERNATIONAL NEGOTIATIONS: THE FRG OPPOSES ANY "ARRANGEMENTS" WITH THIRD COUNTRY PRODUCERS (E.G. JAPAN) EXCEPT IN THE CASE OF PREDATORY PRICE COMPETITION DURING RECESSIONS TO INCREASE MARKET SHARE. IF THE THIRD COUNTRY IS INCREASING MARKET SHARE DUE TO QUALITY OR VALID PRICE ADVANTAGES NO ACTION SHOULD BE TAKEN TO CONTROL IMPORTS (SUCH AS SELF-CONTROL AGREEMENTS, MINIMUM PRICES, ETC.).
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9. OLLIG SAID THAT IN GENERAL THE FRG IS VERY SATISFIED WITH THE ECSC SYSTEM AND THE RIGHTS IT RESERVES TO THE MEMBER COUNTRIES TO REJECT DIRIGISTIC MEASURES. THE FRG IS NOT SENSITIVE TO GIVING MORE POWER TO THE COMMISSION, BUT RATHER REJECTS DIRIGISTIC MEASURES. OLLIG STATED THAT HE RECOGNIZES JAPAN HAS THE MOST ADVANCED STEEL INDUSTRY IN THE WORLD AND THAT NO PRODUCTION CONTROLS OR MINIMUM PRICES CAN CHANGE THAT. DIRIGISTIC MEASURES WOULD ONLY INJURE THE EC STEEL INDUSTRY IN THE LONG TERM BY AVOIDING ADJUSTMENT NOW. ONLY IF GERMAN COMPANIES ACTUALLY BEGAN TO GO OUT OF BUSINESS, WOULD THE FRG REACT THROUGH THE ECSC MECHANISM TO REGULATE THE STEEL INDUSTRY.

10. OLLIG ALSO DID NOT ACCEPT THE WEAK-SOUTH AND STRONG-NORTH ARGUMENT AS A REASON TO SET UP EC STEEL INDUSTRY CONTROLS. DURING 1975 THE BELGIAN AND LUXEMBOURG STEEL INDUSTRIES HAD A 28 PERCENT PRODUCTION DROP AND THE GERMAN INDUSTRY A 24 PERCENT LOSS. THE FRENCH INDUSTRY, HOWEVER, HAD ONLY A 20 PERCENT AND THE ITALIAN ONLY AN EIGHT PERCENT DROP. HE ALSO CLAIMED THAT THE "STRONG" NORTHERN INDUSTRY WAS NOT OUT OF THE WOODS YET AND PREDICTED INCREASED SHORT-TIME AT THE END OF THIS YEAR IN GERMANY. HE ALSO FORESAW AN EXTENDED VACATION-NO PRODUCTION PERIOD AT THE END OF THE YEAR OF 6-8 WEEKS IN LUXEMBOURG AND BELGIUM.

11. THE OTHER DANGER, TO WHICH THE FRG IS VERY SENSITIVE, IS THE PROCEDENCE FOR OTHER INDUSTRIES OF DIRIGISM IN THE STEEL INDUSTRY. THE FRG IS COMMITTED TO THE FREE MARKET SYSTEM AND IF AN EXCEPTION WERE MADE FOR STEEL, THE DEMANDS FROM OTHER INDUSTRIES FOR PROTECTION AND REGULATION WOULD INCREASE. HE

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

POINTED TO THE PROPOSED COOPERATION OF NATIONAL OIL INDUSTRIES AS A DANGEROUS EXAMPLE.

12. FOR THE FUTURE OLLIG PREDICTED THAT DENELUX WOULD REMAIN. THE NON-GERMAN COMPANIES WILL PUSH HARD
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PAGE 03 BONN 17410 02 OF 02 141744Z

TO PRESERVE THE ORGANIZATION AND THE FRG CANNOT ABOLISH THIS PRIVATE BUSINESS GROUP. REGARDING EUROFER, OLLIG PREDICTED THAT THIS NEW ORGANIZATION WOULD REPLACE THE EXISTING STEEL CLUB. NEITHER EUROFER NOR THE COMMISSION WOULD HAVE THE DIRIGISTIC POWERS PROPOSED, HOWEVER, AND THE PRIMARY MECHANISM FOR REGULATION IN TIMES OF CRISIS WOULD REMAIN THE ECSC.

13. COMMENT: OLLIG MAY HAVE BEEN GIVING US THE GERMAN NEGOTIATING POSITION VIS-A-VIS THE COMMISSION, BUT THE GERMAN COMMITMENT TO THE FREE MARKET SYSTEM SHOULD NOT BE UNDERESTIMATED. THE FRG DOES NOT OBJECT TO COMMUNITY-WIDE SOLUTIONS TO STEEL PROBLEMS, BUT RATHER TO DIRIGISTIC PROPOSALS WHICH IMPEDE NECESSARY ADJUSTMENT PROCESSES. PROGRESS TOWARD MORE FLEXIBLE COMMUNITY POWERS TO SET PRICES, QUOTAS, AND STEER INVESTMENT WILL BE VERY DIFFICULT TO OBTAIN IN THE FACE OF GERMAN RESISTANCE.
HILLENBRAND

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, GOVERNMENT REACTIONS, NEGOTIATIONS, CARTELS, EXPORT PRICES, STEELS
Control Number: n/a
Copy: SINGLE
Draft Date: 14 OCT 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976BONN17410
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760386-1033
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761054/aaaabuum.tel
Line Count: 254
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 EC BRUSSELS 9681
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 06 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <06 APR 2004 by CollinP0>; APPROVED <09 AUG 2004 by ElyME>
Review Markings:

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Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GERMAN REACTION TO EC COMMISSION STEEL INDUSTRY PROPOSALS
TAGS: EIND, GE, EEC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

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